

**AGENDA FOR THE
REGULAR COUNCIL MEETING OF
TUESDAY, APRIL 22, 2003 AT 10:00 A.M.
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**AGENDA FOR THE
REGULAR COUNCIL MEETING OF
TUESDAY, APRIL 22, 2003 AT 10:00 A.M.
CITY ADMINISTRATION BUILDING
COUNCIL CHAMBERS - 12TH FLOOR
202 "C" STREET
SAN DIEGO, CA 92101**

NOTE: The public portion of the meeting will begin at 10:00 a.m. The City Council will meet in Closed Session this morning from 9:00 a.m. - 10:00 a.m. Copies of the Closed Session agenda are available in the Office of the City Clerk.

OTHER LEGISLATIVE MEETINGS

A Special Joint Meeting of the **CITY COUNCIL/REDEVELOPMENT AGENCY** has also been scheduled this afternoon. A special docket will be issued regarding this meeting.

ITEM-300: ROLL CALL.

NON-AGENDA PUBLIC COMMENT

This portion of the agenda provides an opportunity for members of the public to address the Council on items of interest within the jurisdiction of the Council. (Comments relating to items on today's docket are to be taken at the time the item is heard.)

Time allotted to each speaker is determined by the Chair, however, comments are limited to no more than three (3) minutes **total per subject** regardless of the number of those wishing to speak. Submit requests to speak to the City Clerk **prior** to the start of the meeting. Pursuant to the Brown Act, no discussion or action, other than a referral, shall be taken by Council on any issue brought forth under "Non-Agenda Public Comment."

COUNCIL, CITY ATTORNEY, CITY MANAGER COMMENT

REQUEST FOR CONTINUANCE

The Council will now consider requests to continue specific items.

ADOPTION AGENDA, DISCUSSION, OTHER LEGISLATIVE ITEMS

RESOLUTIONS:

ITEM-330: Proposed Consolidated Refunding of Three 1915 Act Assessment District Bonds and Creation of Reassessment District No. 2003-1.

(See City Manager's Report CMR-03-069. Otay Mesa Community Plan area. District-8.)

CITY MANAGER'S RECOMMENDATION:

Adopt the following resolutions:

Subitem-A: (R-2003-1192)

Adoption of a resolution making preliminary determinations and declaring intention to issue refunding bonds for proposed Reassessment District No. 2003-1, and ordering a report thereon.

Subitem-B: (R-2003-1193)

Adoption of a resolution passing on the report of the Assessment Engineer, giving preliminary approval, and setting a time and place for a public hearing and ordering the initiation of assessment ballot procedures.

CITY MANAGER SUPPORTING INFORMATION:

At the request of property owners, and in accordance with the Improvement Bond Act of 1915 (the "1915 Act"), the City previously has issued 1915 Act bonds to finance the acquisition of public improvements (street, water, sewer and drainage improvements) providing special benefit to property owners within Assessment District Numbers 4011, 4021, and 4036 (the "Original Districts"). The City typically issues 1915 Act bonds for a period of 25 years. Annual principal and interest payments on the 1915 Act bonds are paid with annual special assessments collected from property owners within the special assessment districts. Special assessments are billed in equal installments with the County property tax bills, which are due in December and April of each year. Assessment liens against property within the special assessment districts secure the annual payment of principal and interest over the life of the 1915 Act bonds. Once collected, special assessments are forwarded through the City to a paying agent or trustee who, in turn, makes scheduled principal and interest payments annually to the owners of the bonds.

If adopted, the resolutions will begin the formal legislative proceedings to enable the City to reduce annual special assessments for property owners within the Original Districts by cost-effectively consolidating the three outstanding 1915 Act bond issues (the "Original Bonds") into a single, less expensive bond issuance. Assessments for the Original Districts would be replaced

with reduced reassessments for a new consolidated City of San Diego Reassessment District No. 2003-1 (the “Reassessment District”).

FISCAL IMPACT:

There would be no fiscal impact to the City’s General Fund as a result of these actions. All costs related to the creation of the Reassessment District and the issuance of the refunding bonds would be reimbursed from bond proceeds. Certain costs related to the creation of the Reassessment District (e.g., financial advisor, reassessment engineer, bond counsel, disclosure counsel, and City staff costs) have been interim funded by the City’s Special Assessment District Delinquency Fund (the “Delinquency Fund”), and the Delinquency Fund would be subsequently reimbursed for these expenditures if the refunding bonds are sold (the Delinquency Fund is funded by penalties paid on delinquent assessments for bond financed special assessment districts). In accordance with the Closed Session meeting of March 25, 2003, \$154,815.77 would be transferred from the Delinquency Fund to pay certain delinquent special assessments, and this amount would not be reimbursed from bond proceeds.

Frazier/Vattimo/CW

Aud. Cert. 2301052.

Note: This activity is exempt from CEQA pursuant to State CEQA Guidelines Section 15061(b)(3).

ADOPTION AGENDA, DISCUSSION, OTHER LEGISLATIVE ITEMS
RESOLUTIONS:

ITEM-331: Base Realignments and Closures (BRAC) in 2005.

(See City Manager Report CMR-03-074.)

CITY MANAGER'S RECOMMENDATION:

Adopt the following resolution:

(R-2003-1198) Tb(CACTION Tb)

Accepting the Defense Conversion Resources, LLC’s [DCR] San Diego Base Realignments and Closures [BRAC] report;

Authorizing an amendment to the City’s contract with the San Diego Regional

Economical Development Corporation [EDC] to include a strategy of base retentions;

Authorizing the City Auditor and Comptroller to transfer an amount not to exceed \$30,000 from the Government Relations Department to EDC to contract with DCR for BRAC consultant services;

Authorizing an expenditure of an amount not to exceed \$30,000 from the Government Relations Department to EDC to contract with DCR for BRAC consultant services, for the purpose of providing funds for the project;

Authorizing the City Auditor and Comptroller to return excess budgeted funds to the appropriate reserve;

Authorizing the City Manager to participate in coordinating committee to guide the EDC's base retention efforts.

Aud. Cert. 2301080.

NON-DOCKET ITEMS

ADJOURNMENT IN HONOR OF APPROPRIATE PARTIES

ADJOURNMENT



THE CITY OF SAN DIEGO **MANAGER'S REPORT**

DATE ISSUED: April 16, 2003 REPORT NO. 03-074

ATTENTION: Honorable Mayor and City Council
Docket of April 22, 2003

SUBJECT: Base Realignments and Closures (BRAC) in 2005

REFERENCE: Governmental Relations Department Report to Rules Committee
(March 17, 2003)
Resolution R-295631 (Application for Defense Retention Grant,
October 29, 2001)

SUMMARY

Issues – 1) Accepting the report concerning base realignments and closures in the San Diego region prepared by Defense Conversion Resources, LLC (DCR); 2) Pursuing a strategy of base retentions for the San Diego region through the San Diego Regional Economic Development Corporation (EDC), including contracting for defense retention consulting services with DCR; and 3) Establishing a coordinating committee to guide the EDC's base retention efforts.

Manager's Recommendations – 1) Accept DCR's San Diego BRAC report; 2) Pursue a strategy of base retentions through the EDC, including a transfer of \$30,000 from the Governmental Relations Department to the EDC for a contract with DCR; and 3) Authorize the Manager to participate in a coordinating committee to guide the EDC's base retention efforts.

Other Recommendations – The Rules Committee accepted the recommendation of the Governmental Relations Department that the issue of base realignments and closures be a priority in its 2003 Federal legislative program. The Chamber of Commerce's Military Affairs Advisory Committee recommends pursuing a strategy of retaining the San Diego region's military bases, consistent with the

military readiness requirements of the BRAC law, and recommends contracting with DCR for defense retention consulting services.

Fiscal Impact – None by this action. (Transfer of \$30,000 from Governmental Relation Department to the EDC for the purpose of contracting with DCR is already budgeted for BRAC consultant services.)

BACKGROUND

The uniformed military services comprise the largest single component of the San Diego economy. According to the San Diego Association of Government, uniformed military accounted for nearly 94,000 employees (civilian and military) in 1998, compared with 79,000 and 77,000 in business services and visitor industry services respectively, the next two largest industry clusters in the region. Furthermore, uniformed military services is regarded as a stable cluster, adding diversity and stability to the region and providing opportunities for job-seekers without the education or experience for high technology employment. The economic impact of this cluster on the region is not clear because much data are not publicly available, but it is likely proportionate to its employment level.

The federal government has undertaken four rounds of base closures, in 1988, 1991, 1993, and 1995. The San Diego Naval Training Center was closed during the 1993 round, while other military facilities were consolidated in San Diego during other rounds. The 2002 National Defense Authorization Act amended the Defense Base Closure and Realignment Act (often called BRAC), authorizing another round of base closures and realignments in 2005. The Department of Defense has estimated that, despite prior base closure rounds, it still has about 25 percent too many facilities. Given the concentration of military bases here, the San Diego region must be considered at substantial risk of losing additional bases under BRAC 2005.

In late 1991, the City and the County each sought \$50,000 in grant funding from the State of California to prepare complementary studies related to military base retention. The County is conducting an in-depth analysis of the economic contributions, both direct and indirect, of the region's military bases and facilities. The study is expected to be completed by late May, 2003. The City, through the Community and Economic Development Department, contracted with Defense Conversion Resources, LLC (DCR), to assess the potential of the San Diego region's bases to be affected by the 2005 round of closures and realignments.

DISCUSSION

The DCR study considered the following for each of the twelve major military bases and facilities in the San Diego region: physical characteristics; military mission; host and tenant activities; relationship among other bases and facilities; the likelihood of realignment or closure; and recommended strategies in response to possible realignment or closure. The study's executive summary and other key excerpts are at Attachment 1. (The full report is 314 pages in length, and is available on the City's website at www.sandiego.gov.)

DCR concluded that several regional bases and facilities are at risk under BRAC 2005 even though as a group they provide a unique capacity for training and military readiness. Further, some of the repair, testing, and procurement functions, which contribute importantly to the regional economy, are also at risk. These bases and facilities may be at risk primarily because their inter-related functions or their relationship to San Diego's high-technology business community may not be understood by decision-makers in Washington, DC, who are far removed from local operations. Furthermore, other regions and states are already in intense competition for bases to be consolidated in their regions. It should be noted that numerous preparatory decisions about BRAC are already underway in the Department of Defense.

While businesses and others may have specific interests in retaining San Diego's military bases and facilities, an effective strategy for retaining them must be based on the military readiness requirements of the BRAC law. Unlike past BRAC rounds, economic considerations and special interest lobbying cannot be considered. Instead, an effective BRAC strategy should be based on communicating the region's capacity to contribute to military preparedness. This includes the synergistic relationship of training facilities in San Diego County as well as facilities in close flying range in southern California, western Arizona, southern Nevada and Utah, and the Pacific coast; contract relationships with the communications, software, hardware, and other high technology businesses and research institutions in the region; and specialized occupational skills concentrated in the region.

For these reasons, it is recommended that the San Diego Regional Economic Development Corporation (EDC) be charged with coordinating a regional military base retention effort. This can be accomplished through an amendment with the EDC's current contract with the City. The EDC, in turn, should contract with DCR, whose principal, William J. Cassidy, Jr., has demonstrated specialized knowledge of the BRAC process. Because the BRAC process will be conducted at various levels of government over a two year period, the EDC will have to do fundraising to cover DCR's on-going consulting services. In the short run, because time is of the essence in the BRAC process, Governmental Relations Department funds already identified for BRAC consultant services can be transferred to the EDC contract for an approximate three month period. (A summary of proposed BRAC consultant services is at Attachment 2.) Finally, the EDC should convene a coordinating group of key stakeholders to provide advice on the base retention effort. The advisory group should include representation by the City Manager. The Directors and staff from the Community and Economic Development Department and the Governmental Relations Department have been involved in the BRAC issue and can provide that representation.

ALTERNATIVES

1. Do not pursue a strategy to retain the San Diego region's military bases and facilities. This is not recommended because closing military bases would have substantial local economic impacts.

2. Pursue a strategy through the Governmental Relations Department rather than the EDC. This is not recommended because the issue is regional in nature and also because the EDC is able to conduct the necessary fundraising.

Respectfully submitted,

Hank Cunningham
Community & Economic Development
Director

Andrew Poat
Governmental Relations Director

Approved: Bruce Herring
Deputy City Manager

BH/CUNNINGHAM/POAT/MDJ

Attachments: 1. San Diego BRAC Report Executive Summary and Excerpts
2. BRAC Consultant Responsibilities



THE CITY OF SAN DIEGO
MANAGER'S REPORT

DATE ISSUED:

REPORT NO.

ATTENTION: Honorable Mayor and City Council
Agenda of

SUBJECT: Proposed Consolidated Refunding of three 1915 Act Bonds issued by the City on behalf of property owners within three City of San Diego 1915 Act Special Assessment Districts and the creation of City of San Diego Reassessment District No. 2003-1.

REFERENCE: None

SUMMARY

Issues: Should the City Council:

- 1) Adopt a resolution declaring the City Council's intention to: (a) establish Reassessment District No. 2003-1; (b) reassess the properties within the City's 1915 Act Special Assessment District Numbers 4011, 4021, and 4036; (c) issue refunding bonds supported by reassessments; and (d) order the preparation of an Engineer's Report?
- 2) Adopt a resolution (a) preliminarily approving the Engineer's Report; (b) setting the time and place for a public hearing on the proposed reassessments and refunding; and (c) directing the City Clerk to provide for the mailing of a Notice of Public Hearing to the record owners of property proposed to be reassessed, together with reassessment ballot materials?
- 3) Adopt a resolution, in accordance with the Closed Session meeting of March 25, 2003, authorizing the transfer of \$154,815.77 from Fund No. 79900 to Fund No. 79626 to pay certain delinquent special assessments on assessor's parcel numbers 646-120-30, 646-120-39, 646-261-01 through 05, and 646-261-07, within Assessment District No. 4021, and authorizing waiver of interest and penalties thereon?

Manager's Recommendation: Adopt the resolutions.

Other Recommendations: None.

Fiscal Impact: There would be no fiscal impact to the City's General Fund as a result of these actions. All costs related to the creation of the Reassessment District and the issuance of the refunding bonds would be reimbursed from bond proceeds. Certain costs related to the creation of the Reassessment District (e.g., financial advisor, reassessment engineer, bond counsel, disclosure counsel, and City staff costs) have been interim funded by the City's Special Assessment District Delinquency Fund (the "Delinquency Fund"), and the Delinquency Fund would be subsequently reimbursed for these expenditures if the refunding bonds are sold (the Delinquency Fund is funded by penalties paid on delinquent assessments for bond financed special assessment districts). In accordance with the Closed Session meeting of March 25, 2003, \$154,815.77 would be transferred from the Delinquency Fund to pay certain delinquent special assessments, and this amount would not be reimbursed from bond proceeds.

BACKGROUND

At the request of property owners, and in accordance with the Improvement Bond Act of 1915 (the "1915 Act"), the City previously has issued 1915 Act bonds to finance the acquisition of public improvements (street, water, sewer and drainage improvements) providing special benefit to property owners within Assessment District Numbers 4011, 4021, and 4036 (the "Original Districts"). The City typically issues 1915 Act bonds for a period of 25 years. Annual principal and interest payments on the 1915 Act bonds are paid with annual special assessments collected from property owners within the special assessment districts. Special assessments are billed in equal installments with the County property tax bills, which are due in December and April of each year. Assessment liens against property within the special assessment districts secure the annual payment of principal and interest over the life of the 1915 Act bonds. Once collected, special assessments are forwarded through the City to a paying agent or trustee who, in turn, makes scheduled principal and interest payments annually to the owners of the bonds.

If adopted, the resolutions will begin the formal legislative proceedings to enable the City to reduce annual special assessments for property owners within the Original Districts by cost-effectively consolidating the three outstanding 1915 Act bond issues (the "Original Bonds") into a single, less expensive bond issuance. Assessments for the Original Districts would be replaced with reduced reassessments for a new consolidated City of San Diego Reassessment District No. 2003-1 (the "Reassessment District").

DISCUSSION

Interest rates in the municipal bond market have fallen from the levels that existed when the Original Bonds were issued. Additionally, properties within the Original Districts have been appreciably improved (developed) since the Original Bonds were issued. As property is developed and sold to new owners (thereby raising the value of the land and diversifying the concentration of ownership), buyers of municipal bonds recognize that the credit quality (the likelihood of receiving timely principal and interest payments) of special assessment bonds improves significantly. Buyers of municipal bonds require lower rates of interest on bonds

secured by developed property with diversified ownership than they require for bonds secured by unimproved property (raw land) or undiversified ownership (one, or a few, major property owners).

On behalf of certain property owners within the Original Districts, City staff began analyzing the financial feasibility of cost-effectively refunding certain of the Original Bonds. A financial advisory team was selected to assist City staff in evaluating all refunding options. As the potential viability of a cost-effective refunding became apparent, other independent consultants were engaged to assist City staff in structuring and marketing a refunding bond issuance.

The finance team specifically evaluated the financial feasibility of refunding each of the City's four outstanding 1915 Act assessment districts in the Otay Mesa area. The evaluation criteria included the current status of development, historical assessment delinquency rates, assessed value of parcels within each district, value-to-lien ratios, and analysis of net present value debt service savings attributable to a refunding of the current outstanding debt. After a thorough evaluation, the finance team determined that refinancing the outstanding debt was potentially feasible for three of the four districts. The remaining 1915 Act bond issue was not selected due to the relatively small amount of outstanding bonds.

The following three 1915 Act districts were selected to participate in the proposed refunding:

<u>District Number</u>	<u>District Name</u>	<u>Bond Issue Date</u>	<u>Original Principal Amount</u>	<u>Outstanding Bonds as of July 1, 2003</u>
4011	De La Fuente Business Park – Ph 1	April 1989	\$4,896,711	\$2,800,000
4021	De La Fuente Business Park – Ph 2	July 1992	\$5,987,154	\$4,335,000
4036	International Business Center	August 1990	\$4,171,930	\$2,495,000

The Refunding Act of 1984 for 1915 Improvement Act Bonds, being Division 11.5 of the California Streets and Highways Code (the “Refunding Act”), allows two or more issues of bonds issued under the 1915 Act to be refunded in one proceeding, with one new issue of refunding bonds secured by reassessments levied in lieu of the original assessments. This type of consolidated structure, referred to as a pooled issue, results in reduced fixed financing costs as a percentage of the total bond issue. In addition, the recommended pooled financing structure enhances the credit quality of the issuance by reducing the credit risk associated with concentrated property ownership, which should result in lower interest rates on the refunding bonds. Under this refunding plan, all remaining property owners subject to assessments from the Original Districts would benefit from the assessment savings on a proportional basis.

The Refunding Act provides a mechanism to streamline the refunding process and eliminate the requirement to conduct a ballot process and associated public hearing. This process is known as a “summary refunding.” However, in order to undertake a summary refunding, three basic tests must be met. First, the amount of the unamortized assessment lien may not rise above the existing, pre-refunding level. Second, the annual debt service may not rise above the existing debt service level. Finally, the maturity of the bonds may not be extended beyond the original, stated maturity of the bonds. If the refunding does not meet all of these tests, a ballot process and public hearing involving the affected property owners must be conducted. Due to the

particular structural attributes of the Original Bonds to be refunded, the financing team has eliminated the summary refunding process as a viable option for accomplishing the refunding. Therefore, a ballot process and public hearing will be required to implement the refunding.

Once the Reassessment District is established, the Original Districts cease to exist as separate legal districts. Further, the annual levies placed on Reassessment District properties are referred to as "reassessments" as opposed to "special assessments."

Under the recommended financing structure, the refunding bonds would be issued as "Limited Obligation Refunding Bonds," and would not constitute either a debt or liability of the City. Neither the faith and credit, nor the taxing power of the City or any of its political subdivisions, would be pledged to payment of the principal of or the interest on the refunding bonds.

SCHEDULE

Adoption of the proposed resolutions would begin the formal legislative proceedings for formation of the proposed Reassessment District and provide for a public hearing on June 10, 2003, regarding the proposed reassessment and refunding. Also, upon adoption of the proposed resolutions, ballots related to the proposed levy of reassessments would be mailed to each of the property owners of record. At the public hearing, the City Council would receive public testimony and the City Clerk would tabulate the returned ballots. If a majority of the returned ballots are cast in favor of the proposed levy of reassessments, the City Council may adopt a resolution confirming the proposed reassessments. At a later date, additional documents would be brought forward for City Council consideration, including, but not limited to, a bond indenture, bond purchase agreement, preliminary official statement, and other related financing documents.

ALTERNATIVE

Do not adopt the three resolutions necessary to proceed with the proposed reassessment and refunding.

Respectfully submitted,

MARY E. VATTIMO
City Treasurer

Approved: PATRICIA T. FRAZIER
Deputy City Manager

VATTIMO/CW